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AUGUST 2022

VanEck Emerging Income Opportunities Active ETF (Managed Fund)

ASX Code: EBND

Investment objective

EBND aims to provide investors with a globally diversified portfolio of bonds and currencies in emerging markets. The fund aims to provide total investment returns, measured over the medium to long term in excess of the Benchmark.

Benchmark

A blended index consisting of 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified.

Performance as at 31 August 2022

	1 month	3 months	6 months	1 year	3 years (p.a.)	5 years (p.a.)	Since EBND inception (p.a.)
Price Return	1.75%	-2.51%	-8.59%	-18.47%	-	-	-9.20%
Income Return	0.54%	1.49%	2.69%	4.76%	-	-	5.20%
Total Return	**2.29%**	**-1.02%**	**-5.90%**	**-13.71%**	**-**	**-**	**-4.18%**
Benchmark	0.31%	-2.33%	-7.94%	-17.78%	-5.89%	-1.06%	-8.32%
Value Add	**+1.98%**	**+1.31%**	**+2.04%**	**+4.07%**	**-**	**-**	**+4.14%**

Benchmark is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond Emerging Market Index Global Diversified. The table above shows past performance of the Fund from its Inception Date and of the Benchmark from 31 December 2015. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. Fund results are net of management fees and costs, but before brokerage fees or bid/ask spreads incurred when investors buy/sell on the ASX. Returns for periods longer than one year are annualised. Past performance is not a reliable indicator of current or future performance which may be lower or higher.

Key benefits

Emerging market income opportunities: Emerging markets bonds generally pay higher interest than developed markets bonds offering investors an opportunity to broaden their income horizon with elevated risk.

Active management: An actively managed benchmark-unaware approach that makes high conviction investments.

Target yield of 5% per annum: Income from investing in emerging markets government, semi-government and corporate bonds that provides an attractive addition for investors' growing income needs.

Key risks

An investment in the Fund carries risks associated with: emerging markets bonds and currencies, bond markets generally, interest rate movements, issuer default, currency hedging, credit ratings, country and issuer concentration, liquidity and fund manager and fund operations. See the PDS for details.

Fundamentals[1]

Number of constituents	123
Number of issuers	80
Modified Duration (yrs)	4.47
Yield to Maturity (%)	11.31
Running Yield (%)	7.69
Weight of top 10 issuers (%)	35.2
Credit Rating Profile	BB
Time to Maturity (yrs)	7.09
Top Holding Weight (%)	2.65
Investment Grade (%)	35.71

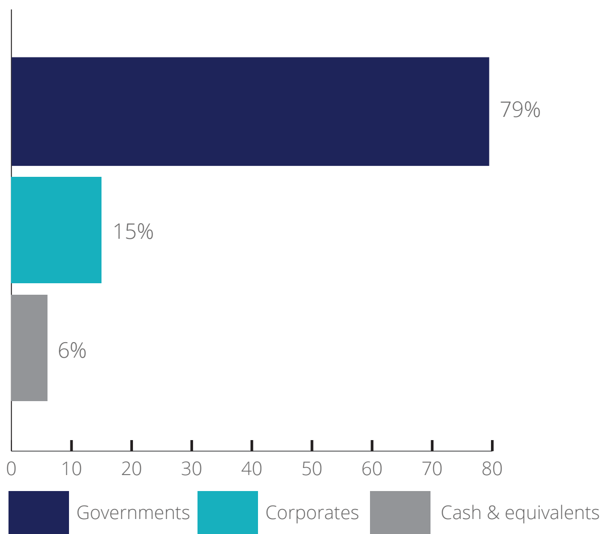
1. As at 31 August 2022

Monthly Dividends History (CPU)

Financial Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
2023	4.5	5.0	-	-	-	-	-	-	-	-	-	-	9.5
2022	4.5	4.5	4.5	5.5	6	5	4.5	4.5	4.5	4.5	4.5	4.5	57.0
2021	5	5	5	5	5	5	5	4.5	4.5	-	-	-	44.0
2020	-	-	-	-	-	-	-	2.5	5	5	5	5	22.5

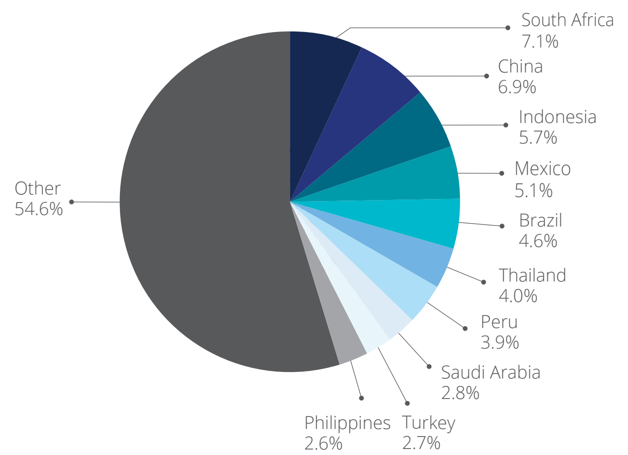
Source: VanEck. Past dividends are no indicators of future dividends. CPU is Cents per Unit. Since EBND inception, 11th February 2020.

Portfolio Allocation



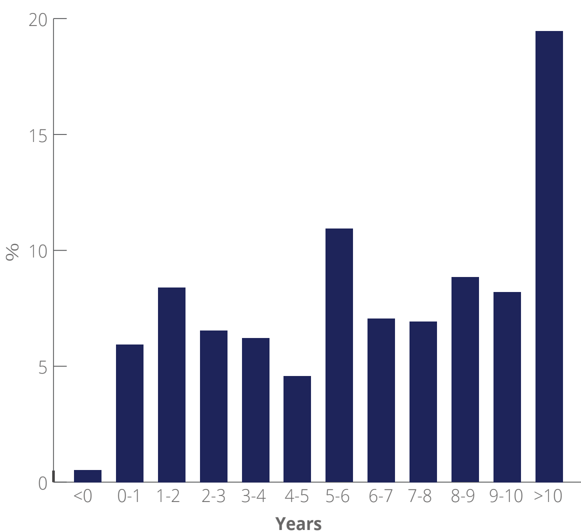
Source: VanEck, as at 31 August 2022.

Top 10 Country Breakdown



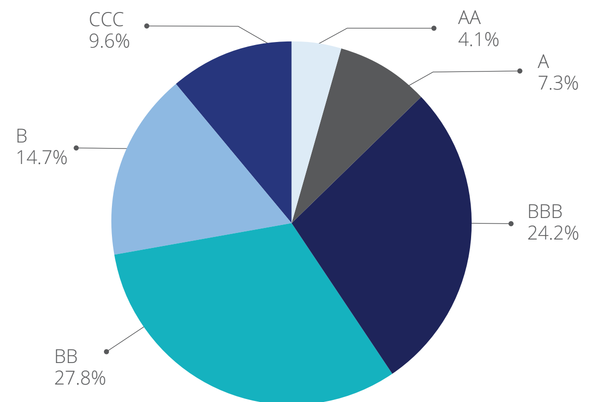
Source: VanEck, as at 31 August 2022.

Time to Maturity Profile



Source: VanEck, as at 31 August 2022.

Credit rating breakdown



Source: VanEck, as at 31 August 2022.

Summary

- The VanEck Emerging Income Opportunities Active ETF (Managed Fund) (EBND) rose 2.29% in August outperforming the 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified Index by 1.98%.
- Outperformance in August was due primarily to China, where we have continued to take positions supporting our view that the property-sector (and other) bonds were oversold and underpriced. In August, these positions gave joy. During the month, we made minor adjustments to the portfolio, increasing EMFX in Asia at the expense of some EMFX in Latam. During the month we did nudge our China exposure slightly higher.
- Top five country exposures are currently in South Africa, China, Mexico, Indonesia and Thailand.
- September's outlook looks cloudy, relative to our positive outlook at the end of July and June. The Fed looks set to keep rates higher for longer than the market was anticipating, and the ECB is now jumping on the obstinate-rising bandwagon. The sunlight through the clouds coming into September seems to be how bearish so many are on risk.
- We still see mostly sunny emerging markets (EM) skies around those developed markets (DM) clouds. EM sovereign high yield (HY) spreads are at crisis highs (i.e., GFC, COVID crises), but with fine fundamentals. EM hiked earlier and larger than any of the DMs which has been a consistent theme of our outlook. We still like EMFX, historically a rare view for us, and now a hiking ECB could add support to the euro (and EMFX), which almost nobody expects. We also still like HY sovereigns and some corporates.
- Selectivity and maintaining vigilance, as the roller-coaster year continues, remain central regardless.

Market and Portfolio commentary

EBND rose 2.29% in August, outperforming its benchmark by 1.98%.

September's outlook looks cloudy, relative to our positive outlook at the end of July and August, but there is still sunlight shining through. The clouds are because of the Fed and the ECB. The Fed looks set to keep rates higher for longer than the market was anticipating, and the ECB is only now jumping on the anti-inflation bandwagon with its new rate-rising tilt.

The clear message from Jackson Hole was that the Fed is solely focused on inflation, even if recession is an implication.

All of the experimental tools the Fed innovated during the GFC were premised on its ability to tackle inflation with certainty. Now everything depends on its use of its traditional tool. And, it has political support too, given the costs inflation and declining real incomes are having on US voters.

We think the ECB's recent hike of 75 basis points (bps) means it too is jumping on the obstinate-hiking bandwagon. The market is pricing in another 75bps hike (81bps as of this writing) and it appears Europe has a more durable inflation problem than the US. This is just beginning to be priced in, in our view. Do you know anyone bullish on Europe or the euro? Moi no plus. In our view, this creates significant upside risks for the euro. While the Fed has been rolling out its "we're hiking until it's over" show, the ECB is just starting.

We still see mostly sunny EM skies through those DM clouds. EM sovereign HY spreads are at crisis highs (i.e., GFC, Covid crises), but with fundamentals fine. EM hiked earlier and larger than any of the DMs. US stocks seem to be, finally, pricing in a Fed that will be rising rates for longer. Worrying about a stock correction strikes us as a common affliction. But, we are lucky to be bond investors, yes, seriously. Bond investors, particularly in EM are being rewarded for the risks. Other so-called 'risk-on' assets do not appear to offer same rewards.

There are some supportive tailwinds for EM debt, one which involves the US 2-year yields and when they peak. We think, probably with a 4% handle and we think it will reach this before the end of the calendar year. When cash moves into 2-year bonds, the discussion about bond inflows begins. Once the discussion turns to bonds, the answers will inevitably involve more EM debt exposure than most investors have. Based on 19 years of data, through August of this year (including all the bad recent times), the efficient frontier's implied allocation is roughly 50% of all fixed income to EM debt (EM HY sovereigns in particular). We're not recommending an allocation of 50% of fixed income assets to EM debt, what we are saying is that going forward, the allocation should be more than zero.

Our reaction to this setup is to keep duration low, but not to fear risk. We still like EMFX, historically a rare view for us, and now a hiking ECB could add support to the euro (and EMFX), which almost nobody expects. We also still like HY sovereigns and some corporates.

Selectivity and maintaining vigilance, as the roller-coaster year continues, remain central regardless. Our portfolio is largely the same as the end of July. Beyond the above, what we love about EM right now is the plethora of uncorrelated asset prices. China property was the key reason for our outperformance in August, for example. One still needs to be very selective, of the five names we owned, all were on the list of seven companies the Chinese government slated for special support. And China is arguably counter-cyclical, with an easing monetary policy bias. Brazil was the first to seriously hike and is possible about to embark on a cutting cycle. Our point is, how great it is to have asset prices that do not correlate with all the high-level risks buffeting asset prices right now.

Portfolio changes

The changes to our top positions are summarised below.

- We increased local currency exposure in Brazil, Indonesia, and Thailand. Brazil is a policy trailblazer in the current EM tightening cycle. The central bank was among the first to launch aggressive frontloading of rate hikes in response to rising inflation pressures, and with the inflation risks seemingly subsiding, there are finally signs of disinflation, it might now be in a position to pause, and possibly start easing at some point in the future – especially if Brazil's fiscal outperformance continues though we are mindful of the pre-election fiscal risks. Brazil's real policy rates are among the highest in EM, and this provides a supportive backdrop for local bonds. In terms of our investment process, this improved the policy test score for the country. Thailand and Indonesia were among the latecomers to the EM tightening cycle, but we finally had liftoffs in both countries, an indication of the improved policy test scores, which should provide fundamental support for the respective currencies and longer local rates.

- We also increased our local currency and hard currency corporate exposure in China, and hard currency sovereign exposure in Israel. Chinese authorities finally started to react more proactively to the near-term growth headwinds, including disruptions in the real estate sector. The central bank unexpectedly cut interest rates, and there was also a pledge to provide liquidity support to select developers. Finally, the central bank signaled that it finds additional currency weakness undesirable. All these developments improved the policy test score for China. Israel's macroeconomic framework remains solid, and the economy continues to generate large current account surpluses. The past experience also shows that Israel's rates do not always sell off in synch with the rest of EM due to its "safer haven" status – a desirable trait when global risks remain elevated. This particular factor improved the technical test score for the country

- We reduced our local currency exposure and hard currency sovereign exposure in Mexico and Colombia. Our decision to reduce exposure in longer-dated sovereign bonds was motivated by concerns about global duration as major DM central banks show no signs of pivoting to an easing cycle. In terms of our investment process, this worsened the technical test scores for both countries. In regards local debt, the reasons were more idiosyncratic. In Mexico, inflation shows no signs of abating, and this means that the central banks will have to continue tightening at a brisk pace. In Colombia, we are concerned about the political dynamics, as well as the widening current account deficit. In addition, annual headline inflation accelerated past 10% in July. All these factors point to the deteriorating economic test scores for both countries.

- We also reduced our local currency exposure in Poland, Hungary, and Chile. Chile's constitutional referendum was very close to call, and the post-referendum political/policy roadmap looks uncertain regardless of the outcome, taking a toll on the country's policy test score. In Poland and Hungary, the Central European economies cannot catch a break with inflation pressures. The fact that Poland's central bank tends to lean 'dovish' does not add confidence, whereas Hungary's outlook is also marred by multiple domestic political and geopolitical complications. In terms of our investment process, this worsens the policy test scores for both countries.

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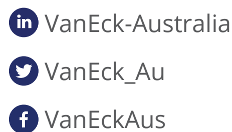

Important notice:

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